

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 STR-07 CEA-01 /111 W
-----062209 022215Z /64

P 022150Z AUG 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 8272
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
ALL OTHER CANADIAN POSTS POUCH

LIMITED OFFICIAL USE SECTION 01 OF 02 OTTAWA 03857

E.O. 11652: N/A
TAGS: PEPR, ECON, CA
SUBJECT: ECONOMIC POLICY "INITIATIVES" BY TRUDEAU

PARIS ALSO FOR USOECD
USEC
DEPARTMENT PLEASE PASS TREASURY FOR SYVRUD

1. SUMMARY. PRIME MINISTER TRUDEAU AUGUST 1 ANNOUNCED
SERIES OF POLICY INITIATIVES IN KEEPING WITH GOC'S
BONN ECONOMIC SUMMIT COMMITMENTS FOR GROWTH, AND SAID
ELECTIONS WOULD NOT BE HELD "AT THIS TIME" WHILE
GOVERNMENT ADDRESSES ECONOMIC PROBLEMS. GOVERNMENT
SPENDING AND TAXES ARE TO BE CUT, RESOURCES SHIFTED,
PUBLIC SERVICE EMPLOYMENT CUT BACK, AND POST OFFICE
MADE A CROWN CORPORATION. STATEMENT WAS SHORT ON
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DETAILS, AND SEEMED AIMED IN LARGE PART AT BUILDING
PRIVATE SECTOR AND ELECTORATE'S CONFIDENCE. CANADIAN
DOLLAR RALLIED IN RESPONSE. LITTLE IF ANY NET FISCAL
STIMULUS CAN BE EXPECTED. END SUMMARY.

2. IN HASTILY ARRANGED TELEVISION ADDRESS ON AUGUST 1,
PRIME MINISTER TRUDEAU SAID BOLDER ACTION IS NOW

REQUIRED TO ASSURE LINKED OBJECTIVES OF RENEWED PROSPERITY AND NATIONAL UNITY. HE OUTLINED CURRENT PROBLEMS OF INFLATED PRICES(PARTICULARLY FOOD AND HOUSING COSTS), DANGER OF INFLATIONARY WAGE SETTLEMENTS, UNEMPLOYMENT, WILDCAT POSTAL STRIKES, INSUFFICIENT INVESTMENT, AND EXCESSIVE GOVERNMENT REGULATION. TO MEET BONN SUMMIT COMMITMENTS ON ECONOMIC GROWTH (OF "UP TO FIVE PERCENT"), STIMULATE INVESTMENT AND REDUCE UNEMPLOYMENT, TRUDEAU SAID GOC WOULD:

-- CUT CDOLS 2 BILLION FROM CURRENT AND PLANNED SPENDING, REDUCE TAXES, AND REORIENT ECONOMIC PRIORITIES;

-- ACHIEVE ZERO GROWTH IN FEDERAL EMPLOYMENT AND REDUCTION OF CIVIL SERVANTS IN 1978;

-- TAKE TOUGH STANCE ON PUBLIC SECTOR WAGE NEGOTIATIONS;

--REDUCE GOVERNMENT INTRUSIONS AND REGULATIONS AFFLICTING INDIVIDUALS AND BUSINESSES;

-- MAKE THE POST OFFICE INTO A CROWN CORPORATION.

3. TRUDEAU'S STATEMENT GAVE NO DETAILS OF STEPS TO BE TAKEN IN REORDERING PRIORITIES. HE INDICATED THESE WILL BE WORKED OUT IN COMING WEEKS. (COMMENT: FALL LIMITED OFFICIAL USE

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MINI-BUDGET WOULD APPEAR LIKELY TO ANNOUNCE TAX AND SPENDING CHANGES.)

4. TRUDEAU SAID TAX AND SPENDING CUTS WOULD BE DONE "WITHOUT DAMAGING THE ADDITIONAL STIMULUS (TO ECONOMIC GROWTH) THAT MUST BE PROVIDED". FINANCE DEPARTMENT OFFICIAL COMMENTED TO EMBOFF THAT PRINCIPLE BEHIND FISCAL INITIATIVES IS THAT FEDERAL DEFICIT SHOULD NOT RPT NOT BE INCREASED. HE SUGGESTED THAT NET FISCAL IMPACT OF BUDGET MEASURES TO BE TAKEN WOULD BE "PRETTY MINIMAL". RATHER, TRUDEAU'S STATEMENT AND MEASURES TO BE TAKEN ARE PRIMARILY DESIGNED TO BOOST PRIVATE SECTOR CONSUMER AND INVESTOR CONFIDENCE, AS WELL AS RAISE HIS STOCK WITH THE PUBLIC AT LARGE.

5. TRUDEAU'S STATEMENT DID APPEAR TO HAVE POSITIVE EFFECT ON FOREIGN EXCHANGE MARKETS. CANADIAN DOLLAR HAD FALLEN BELOW 88 U.S. CENTS AT CLOSE AUGUST 1, BUT RALLIED OVER HALF A CENT IN EARLY TRADING ON AUGUST 2.

6. NOTING THAT SEVERAL MINISTERS WERE BEING CALLED

BACK FROM HOLIDAY FOR MEETINGS ON CANADA'S ECONOMIC SITUATION, TRUDEAU STATED: "THIS MEANS THAT THERE WILL NOT BE AN ELECTION AT THIS TIME. I THINK MOST CANADIANS WOULD AGREE THAT IT IS MORE IMPORTANT TO WORK ON THE FUNDAMENTAL PROBLEMS OF THE ECONOMY." ALTHOUGH SOME OBSERVERS (AS HIGH AS CABINET LEVEL) INTERPRET TRUDEAU'S REMARK TO MEAN ELECTIONS HAVE BEEN PUT OFF TILL SPRING, OTHER SOURCES LEAD EMBASSY TO BELIEVE THAT EARLY FALL ELECTION HAS BEEN RULED OUT, BUT ELECTIONS LATE THIS YEAR STILL REMAIN POSSIBLE. SOURCE IN PRIME MINISTER'S OFFICE WARNED EMBASSY AGAINST READING TOO MUCH INTO TRUDEAU REMARK. HE INDICATED

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THAT "DISCLAIMER" ON ELECTIONS "AT THIS TIME" WAS INSERTED TO SCOTCH INEVITABLE SPECULATION THAT TRUDEAU HAD REQUESTED TV AIRTIME EXPRESSLY TO CALL ELECTIONS. HE CLAIMED INTENT WAS TO FOCUS ATTENTION ON TRUDEAU'S POST-BONN PLANS TO RESHUFFLE PERSONALITIES AND REORGANIZE PRIORITIES IN ECONOMIC AREA.

7. DESPITE BILLING AS ECONOMIC ADDRESS, SPEECH HAD PRONOUNCED POLITICAL OVERTONES. TRUDEAU'S WARM OPENING TRIBUTE TO QUEEN ELIZABETH WAS CLEARLY CALCULATED TO

COUNTER PRESS CHARGES THAT HE "SNUBBED" ROYAL FAMILY
ON ITS ARRIVAL JULY 26 FOR 13-DAY CANADA TOUR, BY
CHOOSING TO REMAIN ON VACATION IN MOROCCO. SPEECH'S
EMPHASIS ON REDUCING GOVERNMENT'S SIZE AND "INTRUSIONS"
INTO INDIVIDUAL AND BUSINESS AFFAIRS SEEMED CLEAR
EFFORT TO CURRY FAVOR WITH CONSERVATIVE OPINION.
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MOREOVER, VIRTUALLY EXCLUSIVE FOCUS ON BREAD AND BUTTER
ISSUES (HE MENTIONED NATIONAL UNITY ONLY ONCE, AND
UTTERED NOT ONE WORD OF FRENCH) TACITLY ACKNOWLEDGED
THE PRIORITIES OF THE AVERAGE VOTER.

8. HASTY SCHEDULING OF BROADCAST ITSELF REFLECTS
DIFFICULT POLITICAL SITUATION TRUDEAU CURRENTLY FACES.
PRIVATE LIBERAL POLLS REPORTEDLY PAINT BLEAK PICTURE
WHICH DICTATED SOME DRAMATIC MOVE. TRUDEAU MAY PLAN
TO ASSESS IMPACT OF ECONOMIC ACTIONS AND ANNOUNCEMENTS
BEFORE MAKING FINAL DECISION ON FALL ELECTION. IF
PUBLIC REACTION IS CYNICAL OR OTHERWISE ADVERSE,
LIBERALS MIGHT WAIT TILL SPRING IN HOPES THEIR STANDING
WOULD BENEFIT FROM EXPECTED CONCRETE ECONOMIC IMPROVE-
MENT. FOR THE MOMENT, TRUDEAU IS GAMBLING THAT LIBERAL
FORTUNES WILL IMPROVE, BUT HIS OPTIONS ARE SHRINKING
AS A WINTER ELECTION IS UNTHINKABLE AND SPRING 1979
BRINGS HIM DOWN TO THE WIRE.
DUEMLING

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